

**EMMETSBURG MUNICIPAL UTILITIES
EMMETSBURG, IOWA
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2012**

TABLE OF CONTENTS

	Page
Officials	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 8
Combining Statements:	
Combining Statement of Net Assets	9
Combining Statement of Revenues, Expenses, and Changes in Net Assets	10
Combining Statement of Cash Flows	11
Notes to the Financial Statements	12 - 17
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual	18
Combining Schedule of Operating Expenses	19
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	20 - 21
Schedule of Findings and Responses	22 - 23

EMMETSBURG MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Saxton	Board Member	Dec. 31, 2015
Deb Davis	Board Member	Dec. 31, 2016
Nick Steinkamp	Board Member	Dec. 31, 2012
Rick Brennan	Board Member	Dec. 31, 2014
Laurie Schneider	Board Member	Dec. 31, 2017
John Bird	City Administrator/Superintendent	
John D. Brown	Attorney	

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the accompanying combining statement of net assets of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2012, and the related combining statement of revenues, expenses and changes in net assets, and combining statement of cash flows. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Capital assets policies do not conform to U.S. generally accepted accounting principles as described in Note 1D to the financial statements. In addition, the Utilities did not implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions as described in Note 8. The effect on the financial statements of the preceding practices is not reasonably determinable.

In our opinion, except for the effects, if any, of the matters discussed in the third paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Emmetsburg Municipal Utilities as of June 30, 2012 and the changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the Emmetsburg Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 - 8 and page 18, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The combining schedule of operating expenses on page 19 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the matters discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burdorf, Parrott And Associates, P.C.

December 12, 2012

Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities' financial activities for the year ended June 30, 2012. Please read it in conjunction with the Utilities' financial statements, which follow.

Financial Highlights

- The Utilities' net assets increased \$121,180 or .98%.
- The Utilities' income on total ending assets was .07%.
- The Utilities' total revenues were \$2,902,269 in 2012 compared to \$3,345,368 in 2011. This \$443,099 decrease in revenues resulted primarily from a decline in Gas fund natural gas billings, due to an extremely mild winter.
- During the year ended June 30, 2012, the Utilities had total expenses, excluding depreciation, of \$2,147,761 compared to \$2,519,297 for the year ended June 30, 2011. The decrease in expenses of \$371,536 is primarily related to a \$397,536 decrease in the of natural gas purchased.

Using This Annual Report

This annual report consists of a series of financial statements. The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets (on pages 9 and 10) provide information about the activities of the Utilities as a whole. Fund financial statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the Utilities' funds.

Reporting the Funds Maintained by the Utilities as a Whole

Our analysis of the funds maintained by the Utilities as a whole begins on page 5. One of the most important questions asked about the Utilities' finances is, "Is the Emmetsburg Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Assets and Combining Statement of Revenues, Expenses and Changes in Net Assets report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net assets and changes in them. You can think of the Utilities' net assets (the difference between assets and liabilities) as one way to measure the Utilities' financial health, or financial position. Over time, increases or decreases in the Utilities net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities' infrastructure, to assess the overall health of the Utilities.

In the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets, we show one kind of activity, a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

Reporting the Most Significant Funds Maintained by the Utilities

Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 9 and provide detailed information about the most significant funds-not the Utilities as a whole. The Utilities' funds use the following accounting approaches:

Proprietary funds - All of the Utilities' expenses incurred is for the cost of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in a proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets. In fact, the Utilities' enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

The Funds Maintained by the Utilities as a Whole

For the years ended June 30, 2012 and 2011, net assets changed as follows:

Summary of Operations and Changes in Net Assets

	2012	2011
Operating revenues	\$ 2,888,130	3,313,980
Operating expenses	2,514,467	2,900,532
Operating income	373,663	413,448
Non-operating revenues (expenses)	(157,044)	(109,911)
Capital contributions	-	420,000
Transfers to Primary Government	(95,439)	(100,698)
Net increase (decrease) in net assets	\$ 121,180	622,839

Summary of Net Assets

	2012	2011
Assets:		
Current and other assets	\$ 5,794,712	6,419,660
Capital assets	11,057,711	10,722,484
Total assets	\$ 16,852,423	17,142,144
Liabilities:		
Current liabilities	\$ 734,003	928,998
Non-current liabilities	3,597,645	3,813,551
Total liabilities	4,331,648	4,742,549
Net assets:		
Invested in capital assets (net of debt)	7,244,059	6,697,167
Unreserved	5,276,716	5,702,428
Total liabilities and net assets	\$ 16,852,423	17,142,144

Summary of Revenues

	2012	2011
Operating:		
Residential sales	\$ 1,136,455	1,496,644
Commercial sales	935,768	1,010,527

Public authority sales	207,353	213,554
Customer fees	509,917	499,260
Interfund services provided	36,132	41,053
Penalties	5,885	8,527
Other	56,620	44,415
Total operating	2,888,130	3,313,980
Non-operating revenues:		
Interest income	14,139	25,828
FEMA grant proceeds	-	5,560
Total revenues	\$ 2,902,269	3,345,368

For the funds maintained by the Utilities, total revenues for June 30, 2012 decreased by \$443,099 from total revenues for the year ended June 30, 2011. The decrease in revenue was primarily due to a decrease in natural gas billings.

Summary of Expenses

	2012	2011
Operating:		
Personal services	\$ 403,178	384,118
Contractual	251,871	288,137
Materials, supplies and maintenance	1,152,527	1,537,494
Utilities	99,262	101,146
Depreciation	537,889	522,534
Uncollectible accounts	3,338	2,829
Interfund services provided	66,402	64,274
Total operating	2,514,467	2,900,532
Interest expense	140,183	141,299
Risk under loan guarantee expense	31,000	-
Total expense	\$ 2,685,650	3,041,831

The total expenses decreased by \$356,181 from the prior year, due primarily to the \$397,536 decrease in the cost of natural gas purchased.

Capital Asset and Debt Administration

Capital Assets

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	340,055	660	-	340,715
Distribution system	1,135,609	-	-	1,135,609
Equipment, meters & mains	891,786	23,992	-	915,778
Total asset costs	2,368,489	24,652	-	2,393,141
Less accumulated depreciation	(1,714,375)	(54,001)	-	(1,768,376)
Gas Department assets, net	\$ 654,114	(29,349)	-	624,765

Water Department:

Land	\$ 67,067	-	-	67,067
Structures & plant	4,638,512	337,661	-	4,976,173
Distribution system	1,839,155	19,931	-	1,859,086
Equipment, meters & mains	655,167	35,775	1,775	689,167
Construction in progress	75,078	-	75,078	-
Total asset costs	7,274,979	393,367	76,853	7,591,493
Less accumulated depreciation	(2,655,375)	(237,425)	504	(2,892,296)
Water Department assets, net	<u>\$ 4,619,604</u>	<u>155,942</u>	<u>76,349</u>	<u>4,699,197</u>

Sanitation Department:

Land	\$ 84,542	-	-	84,542
Structures & plant	5,544,543	540,951	-	6,085,494
Distribution system	2,869,215	-	-	2,869,215
Equipment, meters & mains	609,789	42,449	1,775	650,463
Construction in progress	50,682	-	50,682	-
Total asset costs	9,158,771	583,400	52,457	9,689,714
Less accumulated depreciation	(3,710,005)	(246,463)	503	(3,955,965)
Sanitation Department assets, net	<u>\$ 5,448,766</u>	<u>336,937</u>	<u>51,954</u>	<u>5,733,749</u>

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	340,055	-	-	340,055
Distribution system	1,135,609	-	-	1,135,609
Equipment, meters & mains	870,849	20,937	-	891,786
Total asset costs	2,347,552	20,937	-	2,368,489
Less accumulated depreciation	(1,657,951)	(56,425)	1	(1,714,375)
Gas Department assets, net	<u>\$ 689,601</u>	<u>(35,488)</u>	<u>1</u>	<u>654,114</u>

Water Department:

Land	\$ 67,067	-	-	67,067
Structures & plant	4,638,512	-	-	4,638,512
Distribution system	1,839,155	-	-	1,839,155
Equipment, meters & mains	610,846	44,321	-	655,167
Construction in progress	-	75,078	-	75,078
Total asset costs	7,155,580	119,399	-	7,274,979
Less accumulated depreciation	(2,428,921)	(226,453)	(1)	(2,655,375)
Water Department assets, net	<u>\$ 4,726,659</u>	<u>(107,054)</u>	<u>(1)</u>	<u>4,619,604</u>

Sanitation Department:

Land	\$ 84,542	-	-	84,542
Structures & plant	5,544,543	-	-	5,544,543
Distribution system	2,869,215	-	-	2,869,215
Equipment, meters & mains	568,492	41,297	-	609,789
Construction in progress	-	50,682	-	50,682
Total asset costs	9,066,792	91,979	-	9,158,771
Less accumulated depreciation	(3,470,349)	(239,656)	-	(3,710,005)
Sanitation Department assets, net	\$ 5,596,443	(147,677)	-	5,448,766

Depreciation expense for each department is presented on page 10.

Debt

Net debt decreased during the year ended June 30, 2012 by \$211,665, due to scheduled debt service payments.

Economic Factors and Next Year's Budget and Rates

Several economic factors affected decisions made by the Utilities in setting its fiscal 2012 budget. Due to the Utilities' large concentration of residential customers, weather normally impacts revenue to a greater degree than do economic cycles. However, lately there have been large fluctuations in the natural gas market, which makes it difficult to budget gas costs and gas revenues. The 2012 budget failed to anticipate significant decreases in the natural gas market and billings, due to an extremely mild winter. The Utilities' fiscal 2013 budget has decreased from fiscal 2012, due primarily to anticipated decreases in the natural gas market and billings.

Contacting the Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

John Bird

City Administrator/Superintendent

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Net Assets
Business-Type Activities
June 30, 2012

	Gas Fund	Water Fund	Sanitation Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,344,915	853,750	231,132	5,429,797
Accounts receivable	(12,724)	54,176	54,406	95,858
Current portion of notes receivable	7,237	-	-	7,237
Other receivables	278	1,524	-	1,802
Accrued billing	4,471	6,977	7,492	18,940
Interfund receivable	17,551	3,108	43,536	64,195
Due from primary government	40	50	178	268
Current portion of primary government - Urban Renewal Tax Increment Revenue Bond	1,247	1,454	1,454	4,155
Prepaid expenses	6,005	16,636	19,472	42,113
Total current assets	<u>4,369,020</u>	<u>937,675</u>	<u>357,670</u>	<u>5,664,365</u>
Noncurrent assets:				
Restricted assets - cash and cash equivalents	59,649	13,400	-	73,049
Notes receivable	1,973	-	-	1,973
Due from primary government - Urban Renewal Tax Increment Revenue Bond	5,510	6,430	6,430	18,370
Loan fees (net of \$13,445 amortization)	-	22,750	14,205	36,955
Total noncurrent assets	<u>67,132</u>	<u>42,580</u>	<u>20,635</u>	<u>130,347</u>
Capital assets:				
Land	1,039	67,067	84,542	152,648
Structures and plant	340,715	4,976,173	6,085,494	11,402,382
Distribution system	1,135,609	1,859,086	2,869,215	5,863,910
Equipment, meters and mains	915,778	689,167	650,463	2,255,408
	<u>2,393,141</u>	<u>7,591,493</u>	<u>9,689,714</u>	<u>19,674,348</u>
Less: Accumulated depreciation	(1,768,376)	(2,892,296)	(3,955,965)	(8,616,637)
Net capital assets	<u>624,765</u>	<u>4,699,197</u>	<u>5,733,749</u>	<u>11,057,711</u>
Total assets	<u>\$ 5,060,917</u>	<u>5,679,452</u>	<u>6,112,054</u>	<u>16,852,423</u>

See notes to the financial statements.

	Gas Fund	Water Fund	Sanitation Fund	Total
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 25,647	7,449	1,810	34,906
Other liabilities payable	4,651	-	-	4,651
Current portion of long-term debt	6,007	122,000	88,000	216,007
Accrued vacation pay	3,120	5,450	1,886	10,456
Accrued interest payable	9,662	5,220	3,555	18,437
Interfund payable	3,107	51,773	9,315	64,195
Customer deposits	59,649	13,400	-	73,049
Due to primary government	36,980	137,661	137,661	312,302
Total current liabilities	<u>148,823</u>	<u>342,953</u>	<u>242,227</u>	<u>734,003</u>
Long-term debt (net of current portion above)	<u>297,645</u>	<u>1,966,000</u>	<u>1,334,000</u>	<u>3,597,645</u>
Total liabilities	<u>446,468</u>	<u>2,308,953</u>	<u>1,576,227</u>	<u>4,331,648</u>
Net Assets:				
Investment in capital assets (net of related debt)	321,113	2,611,197	4,311,749	7,244,059
Unrestricted	4,293,336	759,302	224,078	5,276,716
Total net assets	<u>4,614,449</u>	<u>3,370,499</u>	<u>4,535,827</u>	<u>12,520,775</u>
 Total liabilities and net assets	 <u>\$ 5,060,917</u>	 <u>5,679,452</u>	 <u>6,112,054</u>	 <u>16,852,423</u>

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Business-Type Activities
Year Ended June 30, 2012

	Gas Fund	Water Fund	Sanitation Fund	Total
Operating revenues:	\$			
Residential sales	718,365	206,365	211,725	1,136,455
Commercial sales	555,509	181,881	198,378	935,768
Public authority sales	156,826	29,592	20,935	207,353
Customer fees	139,222	172,508	198,187	509,917
Interfund services provided	32,402	2,943	787	36,132
Penalties	5,885	-	-	5,885
Other	27,005	17,268	12,347	56,620
Total operating revenues	1,635,214	610,557	642,359	2,888,130
Operating expenses:				
Personal services	136,772	139,263	127,143	403,178
Contractual	66,188	78,617	107,066	251,871
Materials, supplies and maintenance	981,438	89,325	81,764	1,152,527
Utilities	9,040	34,940	55,282	99,262
Depreciation	54,001	237,425	246,463	537,889
Uncollectible accounts	1,871	1,027	440	3,338
Interfund services used	37,901	14,251	14,250	66,402
Total operating expenses	1,287,211	594,848	632,408	2,514,467
Operating income	348,003	15,709	9,951	373,663
Non-operating revenues and (expenses):				
Interest income	10,117	2,697	1,325	14,139
Interest expense	(16,227)	(74,675)	(49,281)	(140,183)
Donations	(31,000)	-	-	(31,000)
Total non-operating revenues (expenses)	(37,110)	(71,978)	(47,956)	(157,044)
Income (loss) before capital contributions and transfers	310,893	(56,269)	(38,005)	216,619
Transfers to Primary Government	(73,901)	(10,769)	(10,769)	(95,439)
Change in net assets	236,992	(67,038)	(48,774)	121,180
Net assets at beginning of year	4,377,457	3,437,537	4,584,601	12,399,595
Net assets at end of year	\$ 4,614,449	3,370,499	4,535,827	12,520,775

See notes to the financial statements.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Cash Flows
Business-Type Activities
Year Ended June 30, 2012

	Gas Fund	Water Fund	Sanitation Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,609,881	619,501	639,677	2,869,059
Cash payments to suppliers for goods and services	(1,040,234)	(285,763)	(318,702)	(1,644,699)
Cash payments to employees for services	(135,465)	(138,167)	(129,363)	(402,995)
Cash received for interfund services provided	31,802	2,943	787	35,532
Cash paid for interfund services used	(37,902)	(13,951)	(13,949)	(65,802)
Other income	27,005	17,268	12,347	56,620
Net cash provided by operating activities	455,087	201,831	190,797	847,715
Cash flows from noncapital financing activities:				
Cash from or to primary government funds	(11,334)	(25,737)	(25,642)	(62,713)
Collection of loan receivable - primary government	1,198	1,397	1,397	3,992
Donations	(31,000)	-	-	(31,000)
Transfers from or to primary government funds	(73,901)	(10,769)	(10,769)	(95,439)
Net cash provided (used) by noncapital financing activities	(115,037)	(35,109)	(35,014)	(185,160)
Cash flows from capital and related financing activities:				
Loan payments	(5,665)	(119,000)	(87,000)	(211,665)
Interest and loan fees paid	(16,323)	(73,347)	(48,578)	(138,248)
Acquisition and construction of capital assets	(24,652)	(317,018)	(531,446)	(873,116)
Net cash provided (used) for capital and related financing activities	(46,640)	(509,365)	(667,024)	(1,223,029)
Cash flows from investing activities:				
Interest on cash investments and notes receivable	10,117	2,697	1,325	14,139
Collection of notes receivable from others	10,527	-	-	10,527
Net cash provided (used) by investing activities	20,644	2,697	1,325	24,666
Net increase (decrease) in cash and cash equivalents	314,054	(339,946)	(509,916)	(535,808)
Cash and cash equivalents, beginning of year	4,090,510	1,207,096	741,048	6,038,654
Cash and cash equivalents, end of year	\$ 4,404,564	867,150	231,132	5,502,846
Reconciliation:				
Cash and cash equivalents				
Unrestricted and undesignated	\$ 4,344,915	853,750	231,132	5,429,797
Restricted	59,649	13,400	-	73,049
	\$ 4,404,564	867,150	231,132	5,502,846

See notes to the financial statements.

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 348,003	15,709	9,951	373,663
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	54,001	237,425	246,463	537,889
(Increase) decrease in operating assets:				
Accounts and other receivables	32,566	28,198	10,745	71,509
Accrued billing	239	844	448	1,531
Prepaid expenses	17	(1,013)	(657)	(1,653)
Increase (decrease) in operating liabilities				
Accounts payable	18,475	(79,254)	(53,533)	(114,312)
Other liabilities	(2,060)	(2,614)	(20,400)	(25,074)
Accrued vacation pay	1,307	1,096	(2,220)	183
Customer deposits	2,539	1,440	-	3,979
Net cash provided by operating activities	<u>\$ 455,087</u>	<u>201,831</u>	<u>190,797</u>	<u>847,715</u>

Emmetsburg Municipal Utilities

Component Unit of the City of Emmetsburg, Iowa

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, including the Gas department, the Water department and the Sanitation department. The Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2012, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting Policies

The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of the Utilities conform to generally accepted accounting principles as applicable to governments except as noted below. The following is a summary of the significant policies:

A. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the Proprietary fund category.

Proprietary Funds

Proprietary funds are accounted for by using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing, and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Cash and Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. The Utilities maintains a cash and investment pool that is available for use by all funds. Deposits are stated at cost.

The carrying amount of the Utilities' deposits at June 30, 2012 was \$5,502,846, and the bank balance was \$5,524,085. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts.

C. Accounts and Notes Receivable

Trade accounts and notes receivable are reported at their estimated net realizable value. Collection losses have historically been immaterial, and the Utilities, based on its review of material balances outstanding, have elected no valuation allowance at June 30, 2012. The Utilities typically will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

D. Capital Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Combining Statement of Net Assets. The Utilities' reported net assets are segregated into Investment in capital assets (net of related debt) and unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of capital assets. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead should be capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Combining Statement of Net Assets. Depreciation has been provided over a range of estimated useful lives using the straight-line method as follows:

Structure and Plant	20 – 50 years
Distribution System	50 years
Equipment, Meters and Mains	3 – 50 years

E. Designated funds

Designated funds include cash set aside by the Board of Trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

F. Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the Utilities is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$26,878, \$22,540 and \$20,734, respectively, equal to the required contributions for the year.

G. Vacation and Sick Pay

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

2. Note Receivable

On October 15, 2008, the Utilities entered into a loan agreement with a local manufacturing business to loan the business \$37,500. The note is non-interest bearing and is receivable in monthly installments of \$658, with a maturity date of October 15, 2013. The principal balance receivable totaled \$9,210 at June 30, 2012.

3. Primary Governments - Urban Renewal Tax Increment Revenue Bond Receivable

The City of Emmetsburg issued the Emmetsburg Municipal Utilities a \$40,000 Urban Renewal Tax Increment Revenue Bond dated October 11, 2006. Principal on this Bond shall bear interest at the rate of 4% per annum. The Bond is due in 20 equal semi-annual installments of \$2,508 each December 1, and June 1 commencing December 1, 2007. The Bond matures on June 1, 2017. The principal balance receivable totaled \$22,525 at June 30, 2012.

4. Designated funds

The composition of Board designated funds included in cash and cash equivalents, at June 30, 2012 is as follows:

	<u>Gas</u>	<u>Water</u>	<u>Sanitation</u>
Capital Improvements and Replacement	\$ 2,503,754	503,274	205,222
Community Center	200,000	-	-
Downtown Revitalization	125,000	-	-
Medical Reimbursement	40,790	-	-
Medical Reimbursement	39,733	4,138	4,137
Industrial Development	283,231	317,882	11,650
	<u>\$ 3,192,508</u>	<u>825,294</u>	<u>221,009</u>

5. Restricted Assets – Cash and Cash Equivalents

Restricted assets are comprised of cash in bank that can be used only to repay customer deposits.

6. Changes in Capital Assets

A summary of changes in capital assets follows:

	Balance			Balance
	<u>7/1/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/12</u>
Land	\$ 152,648	-	-	152,648
Structures & plant	10,523,110	879,272	-	11,402,382
Distribution system	5,843,979	19,931	-	5,863,910
Equipment, meters & mains	2,156,742	102,216	3,550	2,255,408
Construction in progress	125,760	-	125,760	-
Total	<u>\$ 18,802,239</u>	<u>1,001,419</u>	<u>129,310</u>	<u>19,674,348</u>

Construction in progress, totaling \$125,760 at June 30, 2011, consisted of costs accumulated to date for water and sewer additions related to the Monroe street project, which are being depreciated upon completion and being placed in service during fiscal 2012.

7. Long-Term Debt

The Utilities entered into Loan and Disbursement Agreements with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as a means of financing the construction of certain water and sewer treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

\$2,750,000 Iowa State Revolving Loan Program Water Revenue Bond, Series 2005 due in annual payments of \$102,000 – 179,000 (currently \$122,000) to June 1, 2026, and interest at 3.00%. At June 30, 2012, the loan balance totaled \$2,088,000.

\$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond, Series 2005 MC60R due in annual payments of \$20,000 – 40,000 (currently \$25,000) to June 1, 2025, and interest at 3.00%. At June 30, 2012, the loan balance totaled \$430,000.

\$202,000 Sludge Digestion Improvement Bond, Series 1998B due in annual payments of \$6,000 - \$15,000 (currently \$10,000) to June 1, 2018, and interest at 3.00%. At June 30, 2012, the loan balance totaled \$72,000.

\$358,000 Sewer Revenue Bond, Series 1998A due in annual payments of \$13,000 - \$25,000 (currently \$20,000) to June 1, 2018, and interest at 3.00%. At June 30, 2012, the loan balance totaled \$130,000.

\$990,000 Sewer Revenue Bond, Series 2009A due in annual payments of \$32,000 - \$57,000 (currently \$33,000) to June 1, 2030, and interest at 3.00%. At June 30, 2012, the loan balance totaled \$790,000.

The Utilities is also obligated under a 50% loan liability guarantee related to the financing for the purchase of 58 acres of land for a business park by the Emmetsburg Community Development Corporation ("ECDC"). The guarantee is for 50% of a \$685,000 direct and indirect loan from USDA Rural Development and Iowa Trust and Savings Bank, including 50% of interest due on those loans. During fiscal 2010, ECDC was unable to service the debt and the Utilities assumed 50% of the loan liabilities, which were recorded as a non-operating risk under loan guarantee expense of \$316,347 for fiscal 2010. Original loans under the guarantee are as follows:

\$485,000 USDA Rural Development, due in annual payments of \$3,820 - \$12,325 (currently \$3,820) to November 7, 2040 and interest at 4.125%. At June 30, 2012, the Utilities 50% of the loan balance totaled \$216,147.

\$200,000 Iowa Trust and Savings Bank, due in annual payments of \$1,946 - \$7,176 (currently \$1,946) to November 5, 2032 and variable interest at 6.75%. At June 30, 2012, The Utilities 50% of the loan balance totaled \$87,505.

Annual estimated debt service requirements related to the loans are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 216,007	120,163	336,170
2014	226,350	117,421	343,771
2015	231,670	106,601	338,271
2016	240,007	99,514	339,521
2017	252,325	92,206	344,531
2018-2041	2,647,294	568,014	3,215,308
	<u>\$ 3,813,653</u>	<u>1,103,919</u>	<u>4,917,572</u>

8. Employee Benefits and Other Postemployment Benefits (OPEB)

Health Insurance (Partial Self-Insurance)

The Utilities have purchased a health insurance policy with a \$3,000 deductible per individual and a \$6,000 per family co-insurance clause. The Utilities then self-insures \$2,750 of \$3,000 deductible.

Other Postretirement Benefits (OPEB)

The Utilities operates a single-employer retiree benefit plan, which provides medical/prescription drug benefits for retirees and their spouses. There are eight active and no retired members in the plan. Participants must be age 55 or older at retirement. The benefits are provided through a fully-insured plan with Wellmark Blue Cross Blue Shield of Iowa. Retirees under age 65 pay the same premium for the benefits as active employees and retirees are required to reimburse the Utilities for any premiums paid under the plan. The contribution requirements of plan members are established and may be amended by the Utilities.

The Utilities did not implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions. This is a departure from Generally Accepted Accounting Principles. The Amount by which this departure would affect liabilities, net assets and expenses is not reasonably determinable.

9. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Related Party Transactions

The Component Unit bills and collects for garbage and recycling services provided for the Primary Government to its residents. During the year ended June 30, 2012, the Component Unit billed \$454,547 in fees for the Primary Government.

**Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Required Supplementary Information
Year Ended June 30, 2012**

**Budgetary Comparison Schedule of
Revenues, Expenses and Changes in Net Assets -
Budget and Actual**

		Budgeted Amounts	Final to Actual Variance
	Actual	Original	
Operating revenues	\$ 2,888,130	3,721,029	(832,899)
Operating expenses	<u>2,514,467</u>	<u>3,501,857</u>	<u>(987,390)</u>
Operating income	373,663	219,172	154,491
Non-operating revenues and (expenses)	(157,044)	(146,816)	(10,228)
Transfers to Primary Government	(95,439)	(77,240)	(18,199)
Net assets at beginning of year	<u>12,399,595</u>	<u>12,399,595</u>	
Net assets at end of year	\$ <u><u>12,520,775</u></u>	<u><u>12,394,711</u></u>	

Notes To Required Supplementary Information - Budgetary Reporting

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. One of the nine functions included the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

See Independent Auditors' Report.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Schedule of Operating Expenses
Year Ended June 30, 2012

	Gas Fund	Water Fund	Sanitation Fund	Total
Personal services:				
Trustee fees	\$ 1,500	1,500	1,500	4,500
Office salaries	19,188	18,999	18,966	57,153
Plant labor	87,920	89,247	79,267	256,434
Extra labor	5,865	5,781	6,126	17,772
Overtime	4,121	5,367	4,147	13,635
IPERS	9,107	9,209	8,563	26,879
Payroll taxes	9,071	9,160	8,574	26,805
Total personal services	136,772	139,263	127,143	403,178
Contractual:				
Advertising	3,733	3,069	1,902	8,704
Professional	4,829	7,118	13,150	25,097
Insurance	8,828	21,973	26,110	56,911
Health insurance and risk fund	23,239	38,894	38,935	101,068
Analytical testing and contract	-	1,540	21,523	23,063
Regulatory commission	9,507	2,277	2,001	13,785
Conference and education	4,508	2,993	2,347	9,848
Regulation and compliance	1,155	753	1,098	3,006
Energy efficiency plan	10,249	-	-	10,249
Collection expense	140	-	-	140
Total contractual	66,188	78,617	107,066	251,871
Materials, supplies and maintenance:				
Cost of natural gas purchased	925,419	-	-	925,419
Maintenance supplies	11,727	6,153	21,517	39,397
Automotive supplies and expense	6,217	6,090	4,279	16,586
Other equipment supplies and expense	1,120	1,009	5,392	7,521
Computer maintenance and supplies	3,412	3,412	3,412	10,236
Chemicals	-	29,745	118	29,863
Maintenance and materials - mains	16,508	7,567	-	24,075
Treatment plant maintenance	-	14,897	-	14,897
Water well maintenance	-	138	-	138
Collection system maintenance	-	-	20,638	20,638
Lift station maintenance	-	-	5,625	5,625
Office supplies	7,688	7,424	7,109	22,221
Uniforms	845	1,173	1,115	3,133
Maintenance buildings and grounds	2,016	7,357	10,361	19,734
Miscellaneous	6,486	4,360	2,198	13,044
Total materials, supplies and maintenance	981,438	89,325	81,764	1,152,527

See Independent Auditors' Report.

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Utilities:				
Lift station power	\$ -	-	4,798	4,798
Telephone	5,548	3,583	4,165	13,296
Electric and Gas	3,492	31,357	46,319	81,168
Total utilities	<u>9,040</u>	<u>34,940</u>	<u>55,282</u>	<u>99,262</u>
Depreciation	<u>54,001</u>	<u>237,425</u>	<u>246,463</u>	<u>537,889</u>
Uncollectible accounts	<u>1,871</u>	<u>1,027</u>	<u>440</u>	<u>3,338</u>
Interfund services used:				
Administrative fees - Primary Government	37,901	14,251	14,250	66,402
Total interfund services used	<u>37,901</u>	<u>14,251</u>	<u>14,250</u>	<u>66,402</u>
Total operating expenses	<u>\$ 1,287,211</u>	<u>594,848</u>	<u>632,408</u>	<u>2,514,467</u>

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the financial statements of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Emmetsburg Municipal Utilities, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Emmetsburg Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emmetsburg Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Emmetsburg Municipal Utilities' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. I-A-12 and I-B-12. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Emmetsburg, Iowa and other parties to whom the Emmetsburg Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmetsburg Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Burdorf, Parrott And Associates, P.C.

December 12, 2012

EMMETSBURG MUNICIPAL UTILITIES

Schedule of Findings and Responses

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

- I-A-12 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. Over the past years, the Utilities has implemented various procedures to enhance their internal controls. However, due to time and staffing constraints, the Utilities is still unable to fully segregate receipt and posting functions, disbursement preparation and posting functions and reconciliation function from receipt and disbursement functions.
- Recommendation - We realize that the limited number of office employees makes segregation of duties difficult. However, we recommend that the Utility officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.
- Response and Corrective Action Planned - the Utility will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control. There will be no change until it is fiscally responsible to add additional staff.
- Conclusion - Response accepted.
- I-B-12 Financial Reporting – A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. For the year ended June 30, 2012, management did not have the expertise internally to analyze complex transactions to ensure that all transactions were properly recorded in the accounting records. As a result, certain material adjustments were required as part of the audit process.
- The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other consideration. We understand that preparing financial statements for a government of your size is normally not preformed by the government's personnel because the cost of training and keeping up with extremely difficult accounting principles is prohibitive. However, we are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.
- Recommendation – Since the Utilities' have determined that it is not cost effective to have a trained governmental accountant on staff to prepare the financial statements, they should implement an education policy to assist management's ability to review, approve and accept responsibility for the financial statements. This education should be directed toward recording complex transactions.

Response – Our education policy allows individuals charged with the accounting function to attend continuing education related to understanding and recording complex transactions.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

- II-A-12 Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- II-B-12 Certified Budget - Expenditures during the year ended June 30, 2012 did not exceed the budget for the year.
- II-C-12 Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.
- II-D-12 Travel Expense - No expenditures of Utilities' money for travel expenses of spouses of Utilities officials or employees were noted.
- II-E-12 Business Transactions – Business transactions between the Utilities and Utilities' officials or employees are as follows:
- Board Members
- Nick Steinkamp
- K & W Electric, Inc. Repairs & Maintenance \$1,239
- The transactions with the Mr. Steinkamp does not appear to represent a conflict of interest since total transactions with him were less than \$1,500 during the year.
- II-F-12 Bond Coverage - Surety bond coverage of City officials and employees including the Utilities is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-12 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-12 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-I-12 Revenue Bonds / Notes - The Utilities has complied with all requirements of the Loan and Disbursement agreements.